

**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
NORTHERN KENTUCKY COOPERATIVE FOR
EDUCATIONAL SERVICES, INC.**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Gene Wilhoit, Commissioner, Department of Education

Robert S. Sherman, Director, Legislative Research Commission

Patricia T. Yeager, Executive Director,

Northern Kentucky Cooperative for Educational Services, Inc.

Members of the Northern Kentucky Cooperative for Educational Services, Inc.

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the financial statements of the Northern Kentucky Cooperative for Educational Services, Inc., Highland Heights, Kentucky, as of June 30, 2005.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Northern Kentucky Cooperative for Educational Services, Inc.'s internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



Financial Statements

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

June 30, 2005 and 2004

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

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June 30, 2005 and 2004

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Northern Kentucky Cooperative for Educational Services, Inc.
Highland Heights, Kentucky

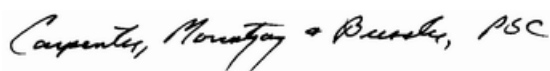
We have audited the accompanying statement of financial position of the Northern Kentucky Cooperative for Educational Services, Inc. (a non-profit organization) as of June 30, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards required that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Kentucky Cooperative for Educational Services, Inc. as of June 30, 2005 and 2004 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2005, on our consideration of Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Northern Kentucky Cooperative for Educational Services, Inc. taken as a whole. The accompanying supplementary information shown on pages 14 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 30 is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Frankfort, Kentucky
October 24, 2005

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Statements of Financial Position

	June 30,	
	2005	2004
ASSETS		
Current assets		
Cash and equivalents	\$ 906,421	\$ 439,504
Grant funds receivable	124,229	38,486
Accounts receivable	127,027	103,658
Total current assets	<u>1,157,677</u>	<u>581,648</u>
Long-term assets		
Property and equipment, net	<u>673,710</u>	<u>687,684</u>
TOTAL ASSETS	<u><u>\$ 1,831,387</u></u>	<u><u>\$ 1,269,332</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 159,692	\$ 33,339
Bonds payable	35,000	35,000
Deferred grant revenue	8,425	24,125
Total current liabilities	<u>203,117</u>	<u>92,464</u>
Long-term liabilities		
Bonds payable	<u>295,000</u>	<u>330,000</u>
TOTAL LIABILITIES	<u>498,117</u>	<u>422,464</u>
NET ASSETS		
Unrestricted	<u>1,333,270</u>	<u>846,868</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,831,387</u></u>	<u><u>\$ 1,269,332</u></u>

The accompanying notes are an integral part of the financial statements.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Statements of Activities

	For the years ended June 30,	
	<u>2005</u>	<u>2004</u>
UNRESTRICTED REVENUES		
Unrestricted revenues		
Slots/Tuition	\$ 1,346,572	\$ 1,257,694
Miscellaneous revenues	1,020,776	935,837
Indirect costs received	797,197	669,334
Seek Funds/ADA	495,960	443,579
Memberships	242,087	188,952
Refunds	72,630	74,968
Interest	71,188	53,230
Prior year's revenues	700	-
	<hr/>	<hr/>
TOTAL UNRESTRICTED REVENUES	4,047,110	3,623,594
Net assets released from restrictions		
Federal grants	1,281,211	972,724
State grants	694,590	701,091
	<hr/>	<hr/>
	1,975,801	1,673,815
	<hr/>	<hr/>
TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	6,022,911	5,297,409
EXPENDITURES		
Certified personnel	1,672,056	1,575,397
Other professional services	1,023,313	962,194
Classified personnel	907,067	942,065
Indirect costs	303,631	237,671
General supplies	195,482	202,154
Americorps living allowance	156,111	-
County retirement	100,281	82,198
Cooperative director	99,155	70,000
Educational services	91,867	3,950
Custodians/maintenance	81,943	-
FICA tax	77,415	64,375
Travel	63,979	63,669
Repairs and maintenance	63,462	67,914
Teacher retirement	53,576	40,382
Utilities/water	48,584	44,137

(Continued)

The accompanying notes are an integral part of the financial statements.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Statements of Activities -- Continued

	For the years ended June 30,	
	<u>2005</u>	<u>2004</u>
EXPENDITURES (continued)		
Health insurance	45,493	22,093
Bookkeeper	44,701	42,856
Medicare tax	40,074	35,432
Accounts receivable administrative assistant/webmaster	37,291	65,106
Printing	37,212	25,100
Flex account manager	35,356	34,493
Professional development administrative assistant	32,983	-
Contingency	32,906	91,825
Dues and fees	31,424	11,986
Assistant to director	30,921	-
Flex account assistant	26,238	47,592
Telephone	23,342	24,484
Workers' compensation	20,705	17,616
Depreciation	21,114	20,569
Books/periodicals	18,330	14,662
Postage	15,688	14,245
Technical/computer services	15,077	16,351
Interest expense/bonds	13,790	18,845
Computers	12,141	15,330
Unemployment	11,171	7,144
Audit	8,361	8,192
Advertising	7,765	6,960
Janitorial supplies	7,733	-
Insurance	7,695	7,647
Sanitation	6,140	3,457
Rent	5,995	-
Equipment	5,364	-
Miscellaneous	3,343	5,523
Life insurance	234	182
Educational contract services	-	96,726
Tuition	-	16,244
Renovations	-	20,000
End program costs	-	22,500
Substitute teachers	-	2,549
	<hr/>	<hr/>
TOTAL EXPENDITURES	5,536,509	5,071,815

(Continued)

The accompanying notes are an integral part of the financial statements.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Statements of Activities -- Continued

	For the years ended June 30,	
	<u>2005</u>	<u>2004</u>
CHANGE IN NET ASSETS	\$ 486,402	\$ 225,594
NET ASSETS, BEGINNING OF YEAR	<u>846,868</u>	<u>621,274</u>
NET ASSETS, END OF YEAR	<u>\$ 1,333,270</u>	<u>\$ 846,868</u>

The accompanying notes are an integral part of the financial statements.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Statements of Cash Flows

	For the years ended June 30,	
	<u>2005</u>	<u>2004</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 486,402	\$ 225,594
Adjustments to reconcile change in net assets to net cash provided by operating activities.		
Depreciation	21,114	20,569
(Increase)/Decrease in grant funds receivable	(85,744)	19,834
Increase in accounts receivable	(23,369)	(37,873)
Increase in accounts payable	126,353	16,590
Increase/(Decrease) in deferred grant revenue	<u>(15,700)</u>	<u>24,125</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	509,056	268,839
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Acquisition of property	(7,139)	(7,040)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds	<u>(35,000)</u>	<u>(35,000)</u>
NET INCREASE IN CASH	466,917	226,799
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>439,504</u>	<u>212,705</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 906,421</u></u>	<u><u>\$ 439,504</u></u>

The accompanying notes are an integral part of the financial statements.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Notes to Financial Statements

June 30, 2005 and 2004

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Northern Kentucky Cooperative for Education Services, Inc. (the Cooperative or NKCES) is a non-profit corporation established to coordinate and administer federal programs for participating Kentucky local school districts, to provide centralized purchasing benefits to the districts, to respond to identified needs of handicapped children served by local education agencies and to provide for the delivery of special education services by joint agreement with the local education agencies.

Funds to operate the Cooperative are obtained primarily from grants awards from the Kentucky Department of Education and the Educational Professional Standards Board and through membership dues paid by local educational districts. Funding for the Cooperative's programs is also provided under the Individuals with Disabilities Education Act, Part B, Discretionary Grant Program, the Perkins Vocational Grant Program, the English Language Acquisition Grant Program, Educational Professional Standards Board Teacher Quality Enhancement Program, and the National and Community Service Act Americorps Program.

All federal grants are restricted and may be used only for purposes specified by the grantor. Each grantor requires separate reporting of support and expenditures and changes in net assets applicable to its funding.

The Cooperative also restricts the use of grants received from state and local sources. These grants are listed also as temporarily restricted until restrictions have been satisfied and revenues and expenditures are recognized as such.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

A portion of cash and equivalents are designated for the future compensation of employees for unused sick leave at the time of retirement. The Board, in May 2004, created an escrow account to maintain the funds necessary to reimburse employees who qualify for the retirement benefit. To assist with a fair share of funding the escrow account, each Cooperative program funding full time employees will contribute a percentage of the program's salaries processed through the Cooperative's payroll system. The initial percentage was .25%. The balance of the retirement escrow account was \$55,983 and \$42,500 as of June 30, 2005 and 2004, respectively.

The Cooperative records equipment expenditures based on the source of funds utilized to acquire such equipment.

Unrestricted Funds

Equipment is capitalized at cost and depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Restricted Funds

Equipment is expensed due to grantor requirement that the title to equipment acquired with grantor funds remains with grantor.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Notes to Financial Statements - Continued

June 30, 2005 and 2004

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- CONTINUED

Deferred grant revenue represents grantor funds received but not yet expended for the underlying grant program.

Certain amounts from the 2004 financial statements have been reclassified to conform to current year presentation.

NOTE B -- PROGRAM DESCRIPTIONS

The Phoenix Program

The Phoenix Program is a regional program serving students with the most severe emotional and behavioral disabilities. Currently serving students from twelve school districts, the intent of the program is to assist school districts by providing self-contained classrooms within an alternative school setting. This program, like all other Cooperative programs, is under the direction of the advisory committee consisting of superintendents and special education directors. Part of the funding is received from the Kentucky Education Consortium of State Agency Children (KASAC). The funds are based on a formula of the number of eligible children served in the program.

IDEA B Special Education Consortium

All sixteen-member districts participate in the Special Education Consortium. The Kentucky Department of Education awards the federal IDEA state-share restricted funds to the Cooperative based upon a grant proposal presented to them in March. This proposal is based on the approval of the Board of Directors. The focus of the budget is on direct services to children. These services include occupational therapy, physical therapy, speech therapy, medical evaluations, tuition and transportation costs. Technical assistance is also included. Districts determine how these funds are to be used to provide for the unmet needs of exceptional children.

First Steps Project

The First Steps project is totally funded by the Cabinet for Health and Family Services/Department for Mental Health and Mental Retardation, who also sets the budget. Three staff members are employed through this grant project which focuses on infants and toddlers with special needs and program monitoring. The project is a part of Kentucky's Early Intervention System (KEIS) that serves children from birth to age three who have a developmental delay or a particular medical condition that is known to cause a developmental delay. The program is designed to provide technical assistance and parent support for service providers and families participating in the project.

Learning Academy

Eleven member districts participate in this regional alternative school program which is under the auspices of the Newport School district. The program serves 79 students in grades 4-12 who have problems in the traditional school program and are at-risk for academic failure and dropping out of school. Funding for the program comes from the Average Daily Attendance (ADA) generated by each student plus excess costs, which are paid by the participating district. Funds received from grant awards supplement operational costs. Participating districts in the Learning Academy's Advisory Committee develop the budget. This academically focused program includes counseling and other necessary support services for students and their parents.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Notes to Financial Statements - Continued

June 30, 2005 and 2004

NOTE B -- PROGRAM DESCRIPTIONS -- CONTINUED

Carl Perkins Consortium

Perkins funds are used to improve vocational education programs in the consortium districts. These are districts whose basic allotments are less than \$15,000 and must pool their allocations. Funds are used to purchase equipment, upgrade curriculum to better align with vocational mandates of the Kentucky Education Reform Act (KERA) and to improve and update technology programs and staff development programs provided to implement assessment plans, teaching strategies and developing Individual Student Vocational Plans.

Flexible Spending Accounts Management

Employees from fifteen districts plus the Cooperative have an option of participating in the Flexible Spending Accounts program. A Board of Governors consisting of representatives from participating districts oversees the operation of the Flex Plan program. It should also be noted that the Flex Plan falls under the umbrella of all Cooperative functions and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a non-profit agency.

Vocational Rehabilitation

The Office of Vocational Rehabilitation contracts with the Cooperative to provide vocational assessments to school-aged clients who are eligible for Vocational Rehabilitation services. Referrals are made from the Vocational Rehabilitation counselors to the Vocational Assessment Center. Assessment information is provided to the schools, students and counselors.

Professional Development Consortium

Thirteen member districts participate in the Professional Development Consortium. The professional development offerings coordinated by the Advisory Committee focus strictly on state required mandates relating to the Kentucky Education Reform Act. Sessions are offered during the fall, spring and summer.

Participating districts have established a dues formula and session costs for the program.

Family Resource

This Memorandum of Agreement is for personnel services through the Kentucky Department for Health and Family Services. It is for Family and Youth Service Center Consultants who are serving in the Regional Centers.

District Flow Through

The Cooperative coordinates multiple services that individual school districts could not afford to fund individually. This fund is set up to contract with professional agencies and individuals, such as therapists, counselors and psychologists to provide shared professional services to the local school districts. The member districts are billed from the Cooperative office for reimbursements for these shared services.

Challenge Program

This regional school program serves school age students who have functional mental disabilities with behavior issues. The Program currently serves students from four school districts within the Cooperative's region. The intent of the program is to assist school districts by providing self-contained classrooms within an alternative school setting. Participating school districts become active members of the program. Costs, budgets, policies, procedures, transitions, alignment with

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Notes to Financial Statements - Continued

June 30, 2005 and 2004

NOTE B -- PROGRAM DESCRIPTIONS -- CONTINUED

Kentucky's educational standards and implementation of special education procedures are some of the topics discussed in the committee meetings.

Teacher Quality Enhancement Program

The Cooperative provides administrative support for the four FTE personnel and various consultants included in the Higher Education Act (HEA) Title II Teacher Quality Enhancement Act grant. The personnel portion includes administering travel, salaries and benefits of the FTE personnel as well as the consultants' fees and travel as approved by the Education Professional Standards Board (EPSB).

The Cooperative provides all reports as needed by the EPSB as well as satisfies all reporting requirements of the United States Department of Education (DOE). This service is required because the Commonwealth lacks personnel policy to accommodate temporary personnel funded through federal grants.

National Board for Teacher Certification

The Cooperative provides a unique support system for National Board Professional Teacher Certification (NBPTS). The Cooperative has designed a cohort group to help teachers reach this milestone. There are Nationally Certified Teachers who serve as mentors and arrangements have been made for recent participants to serve as mentor assistants. A voluntary process established by NBPTS, it is achieved through a rigorous performance-based assessment that takes nearly a year to complete. Through the assessment process, teachers document their subject matter knowledge, provide evidence that they know how to teach their subjects to students most effectively and demonstrate their ability to manage and measure student learning. Whether candidates achieve or not, an overwhelming majority say it is the most powerful professional development experience they've ever had.

English Language Acquisition (ESL) Program

The Cooperative's ESL Program was created to aid school districts of Northern Kentucky with the identification, assessment, planning and instruction of students whose first and home language is a language other than English. The Program's objectives are to ensure that Northern Kentucky schools are in compliance with state and federal guidelines for English Language Learners and to meet the needs of these students and help them achieve academic success. The federal government has provided guidelines and standards in No Child Left Behind, Title III, for the education of English Language Learners, to which the state of Kentucky holds each school accountable. Through NKCES, participating school districts have employed the services of two English-as-a-Second Language (ESL) Consultants. The consultants help schools identify potential ELLs and then test their language proficiency to determine if they qualify for services. When students qualify, the consultants make recommendations to the school district regarding what action might be taken to help the students attain English proficiency and function with their classmates at grade level.

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Notes to Financial Statements - Continued

June 30, 2005 and 2004

NOTE C -- PROPERTY AND EQUIPMENT

The Cooperative acquired a building in June 2003. The building is depreciated using the straight-line method over a 39-year useful life. The Cooperative depreciates equipment using the straight-line method over a five-year useful life. Depreciation expense for the current year totaled \$21,114. The balance of property and equipment of the Cooperative is as follows:

Property	\$ 700,000
Equipment	<u>17,256</u>
	717,256
Accumulated depreciation	<u>(43,546)</u>
Net property, plant and equipment	<u>\$ 673,710</u>

NOTE D -- LEASE

The Cooperative leases property from Northern Kentucky University. In consideration of the lease agreement, the lessee and lessor agree that rental for said property will be in lieu of Northern Kentucky University paying annual dues for membership in the Cooperative.

NOTE E -- BONDED DEBT

In June 2003, the Cooperative issued bonds totaling \$400,000 and bearing interest at a rate of 4.04%. The purpose of this issue was to provide funds for the purchase of a building in Northern Kentucky. The minimum obligations of the Cooperative at June 30, 2005 for debt services (principal and interest) are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 35,000	\$ 12,583	\$ 47,583
2007	35,000	11,288	46,288
2008	40,000	9,900	49,900
2009	40,000	8,340	48,340
2010	40,000	6,700	46,700
2011	45,000	4,935	49,935
2012	45,000	3,045	48,045
2013	<u>50,000</u>	<u>1,050</u>	<u>51,050</u>
	<u>\$ 330,000</u>	<u>\$ 57,841</u>	<u>\$ 387,841</u>

NOTE F -- CONCENTRATIONS OF CREDIT RISK

The Cooperative secured pledges of securities from their financial institution to collateralize the deposits over FDIC insurance.

NOTE G -- RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers' Retirement System (KTRS). Funding the plan was provided through payroll withholdings of 13.105% in 2005 and 9.855% in

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Notes to Financial Statements - Continued

June 30, 2005 and 2004

NOTE G -- RETIREMENT PLANS -- CONTINUED

2004 and matching state contributions. The matching contributions are paid by the Federal program for any salaries paid by the program.

The Cooperative's total payroll for the years 2005 and 2004 was \$3,123,823 and \$2,517,462, respectively. The Cooperative had a contribution requirement in 2005 and 2004 to KTRS and CERS of \$153,857 and \$122,585, respectively. Benefits under the KTRS and CERS plans will vary based on final compensation, years of service and other factors as fully described in the plan document.

As the Cooperative is only one of several employers participating, it is not practical to determine the Cooperative's portion of the unfunded past service cost of the vested benefits of the Cooperative's portion of the plan assets.

Classified employees are covered under the County Employers' Retirement System (CERS). Funding for the plan is provided through payroll withholdings of 5% and employer contributions of 8.48% in 2005 and 7.34% in 2004 of the employees' total compensation subject to contribution.

SUPPLEMENTARY INFORMATION

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program

June 30, 2005

	Operational	Council of Partners	Learning Academy
SUPPORT AND REVENUE			
Slots/Tuition	\$ -	\$ -	\$ 350,731
Miscellaneous revenues	32,772	27,665	-
Indirect costs received	309,019	-	-
Seek Funds/ADA	-	-	295,601
Memberships	45,184	60,452	-
Refunds	61,782	-	45
Interest	71,188	-	-
Prior year's revenues	-	-	-
Net assets released from restrictions			
Federal grants	-	-	-
State grants	-	-	-
TOTAL SUPPORT AND REVENUE	519,945	88,117	646,377
EXPENDITURES			
Certified personnel	46	29,228	336,498
Other professional services	9,934	6,160	714
Classified personnel	-	-	219,816
Indirect costs	-	-	30,335
General supplies	650	7,707	9,358
Americorps living allowance	-	-	-
County retirement	8,602	500	18,641
Cooperative director	57,338	-	-
Educational services	29	-	1,084
Custodians/maintenance	81,943	-	-
FICA tax	6,240	457	12,143
Travel	6,592	3,023	1,215
Repairs and maintenance	17,852	-	-
Teacher retirement	-	-	-
Utilities	48,584	-	-
Health insurance	-	-	-
Bookkeeper	6,038	-	-
Medicare tax	2,178	107	7,031
Accounts receivable administrative			
assistant/webmaster	3,123	-	-
Printing	491	1,921	7,184
Flex account manager	-	-	-

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Operational	Council of Partners	Learning Academy
Professional development administrative assistant	-	-	-
Contingency	16,590	4,135	943
Dues and fees	2,038	504	635
Assistant to director	16,685	7,667	-
Flex account assistant	-	-	-
Telephone	2,520	1,689	2,792
Workers' compensation	6,519	-	-
Depreciation	21,114	-	-
Books/periodicals	764	10	1,655
Postage	871	412	371
Technical/computer services	2,443	-	1,671
Interest expense/bonds	13,790	-	-
Computers	1,666	1,356	-
Unemployment	9,173	-	-
Audit	3,620	-	-
Advertising	7,210	-	-
Janitorial supplies	7,733	-	-
Insurance	3,882	-	-
Sanitation	6,140	-	-
Rent	-	-	5,995
Equipment	-	-	-
Miscellaneous	1,942	-	969
Life insurance	-	-	-
TOTAL EXPENDITURES	374,340	64,876	659,050
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 145,605	\$ 23,241	\$ (12,673)

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Phoenix Program	ESL	Flexible Spending
SUPPORT AND REVENUE			
Slots/Tuition	\$ 681,189	\$ 47,632	\$ -
Miscellaneous revenues	1,598	112	-
Indirect costs received	-	-	426,397
Seek Funds/ADA	164,588	-	-
Memberships	-	33,000	-
Refunds	-	2,249	-
Interest	-	-	-
Prior year's revenues	-	72	-
Net assets released from restrictions			
Federal grants	-	45,946	-
State grants	130,728	-	-
TOTAL SUPPORT AND REVENUE	978,103	129,011	426,397
EXPENDITURES			
Certified personnel	430,170	-	-
Other professional services	147,269	-	2,686
Classified personnel	175,442	55,427	-
Indirect costs	66,362	5,262	-
General supplies	12,716	2,574	12,945
Americorps living allowance	-	-	-
County retirement	14,753	4,700	10,410
Cooperative director	-	-	40,817
Educational services	80	-	79
Custodians/maintenance	-	-	-
FICA tax	9,717	3,211	6,942
Travel	-	4,208	677
Repairs and maintenance	31,093	-	1,797
Teacher retirement	-	-	-
Utilities	-	-	-
Health insurance	-	-	-
Bookkeeper	-	-	25,663
Medicare tax	7,633	751	2,198
Accounts receivable administrative			
assistant/webmaster	-	-	24,801
Printing	3,869	29	11,448
Flex account manager	-	-	35,356

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Phoenix Program	ESL	Flexible Spending
Professional development administrative assistant	-	-	5,524
Contingency	3,910	-	6,405
Dues and fees	2,413	-	-
Assistant to director	-	-	5,179
Flex account assistant	-	-	26,238
Telephone	961	563	8,568
Workers' compensation	-	-	2,000
Depreciation	-	-	-
Books/periodicals	3,134	3,220	614
Postage	330	71	12,684
Technical/computer services	3,340	-	4,195
Interest expense/bonds	-	-	-
Computers	2,205	-	2,990
Unemployment	-	-	360
Audit	-	-	3,241
Advertising	-	-	-
Janitorial supplies	-	-	-
Insurance	-	-	3,273
Sanitation	-	-	-
Rent	-	-	-
Equipment	500	-	-
Miscellaneous	-	357	-
Life insurance	-	-	-
TOTAL EXPENDITURES	915,897	80,373	257,090
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 62,206	\$ 48,638	\$ 169,307

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Professional Development	District Flow Through	Challenge Program
SUPPORT AND REVENUE			
Slots/Tuition	\$ 85,248	\$ -	\$ 173,372
Miscellaneous revenues	1,180	954,460	2
Indirect costs received	-	61,781	-
Seek Funds/ADA	-	-	35,771
Memberships	19,451	8,000	-
Refunds	-	8,554	-
Interest	-	-	-
Prior year's revenues	628	-	-
Net assets released from restrictions			
Federal grants	-	-	-
State grants	245	-	-
TOTAL SUPPORT AND REVENUE	106,752	1,032,795	209,145
EXPENDITURES			
Certified personnel	9,698	39,153	74,352
Other professional services	10,550	757,734	500
Classified personnel	-	127,718	65,947
Indirect costs	-	65,703	11,772
General supplies	22,002	5,229	2,352
Americorps living allowance	-	-	-
County retirement	692	10,831	5,525
Cooperative director	-	-	-
Educational services	1,073	-	1,413
Custodians/maintenance	-	-	-
FICA tax	481	7,372	3,509
Travel	4,783	1,589	173
Repairs and maintenance	-	-	8,480
Teacher retirement	-	-	-
Utilities	-	-	-
Health insurance	-	-	-
Bookkeeper	-	-	-
Medicare tax	238	2,226	1,792
Accounts receivable administrative			
assistant/webmaster	-	-	-
Printing	4,489	-	470
Flex account manager	-	-	-

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Professional Development	District Flow Through	Challenge Program
Professional development administrative assistant	8,165	-	-
Contingency	-	-	923
Dues and fees	250	18,159	1,643
Assistant to director	-	-	-
Flex account assistant	-	-	-
Telephone	825	-	825
Workers' compensation	-	-	-
Depreciation	-	-	-
Books/periodicals	5,548	-	10
Postage	132	-	-
Technical/computer services	605	-	290
Interest expense/bonds	-	-	-
Computers	-	-	-
Unemployment	-	318	-
Audit	-	-	-
Advertising	-	-	-
Janitorial supplies	-	-	-
Insurance	-	-	-
Sanitation	-	-	-
Rent	-	-	-
Equipment	-	-	-
Miscellaneous	75	-	-
Life insurance	-	-	-
TOTAL EXPENDITURES	69,606	1,036,032	179,976
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 37,146	\$ (3,237)	\$ 29,169

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Health Foundation	Jet/CEO	Family Resource
SUPPORT AND REVENUE			
Slots/Tuition	\$ -	\$ 8,400	\$ -
Miscellaneous revenues	-	-	-
Indirect costs received	-	-	-
Seek Funds/ADA	-	-	-
Memberships	-	-	-
Refunds	-	-	-
Interest	-	-	-
Prior year's revenues	-	-	-
Net assets released from restrictions			
Federal grants	-	-	-
State grants	-	-	338,731
TOTAL SUPPORT AND REVENUE	-	8,400	338,731
EXPENDITURES			
Certified personnel	-	-	244,868
Other professional services	718	-	-
Classified personnel	-	-	50,851
Indirect costs	-	584	24,763
General supplies	-	39	4,430
Americorps living allowance	-	-	-
County retirement	-	-	4,312
Cooperative director	-	-	-
Educational services	-	8,930	-
Custodians/maintenance	-	-	-
FICA tax	-	-	2,968
Travel	-	7	-
Repairs and maintenance	-	-	-
Teacher retirement	-	-	-
Utilities	-	-	-
Health insurance	-	-	-
Bookkeeper	-	-	-
Medicare tax	-	-	3,822
Accounts receivable administrative assistant/webmaster	-	-	-
Printing	-	-	-
Flex account manager	-	-	-

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Health Foundation	Jet/CEO	Family Resource
Professional development administrative assistant	-	-	-
Contingency	-	-	-
Dues and fees	-	-	-
Assistant to director	-	-	-
Flex account assistant	-	-	-
Telephone	-	-	-
Workers' compensation	-	-	2,357
Depreciation	-	-	-
Books/periodicals	-	-	-
Postage	-	-	-
Technical/computer services	-	-	-
Interest expense/bonds	-	-	-
Computers	-	-	-
Unemployment	-	-	360
Audit	-	-	-
Advertising	-	-	-
Janitorial supplies	-	-	-
Insurance	-	-	-
Sanitation	-	-	-
Rent	-	-	-
Equipment	-	-	-
Miscellaneous	-	-	-
Life insurance	-	-	-
TOTAL EXPENDITURES	718	9,560	338,731
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (718)	\$ (1,160)	\$ -

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Vocational Rehabilitatio n	First Steps	National Boards
SUPPORT AND REVENUE			
Slots/Tuition	\$ -	\$ -	\$ -
Miscellaneous revenues	2,987	-	-
Indirect costs received	-	-	-
Seek Funds/ADA	-	-	-
Memberships	-	-	-
Refunds	-	-	-
Interest	-	-	-
Prior year's revenues	-	-	-
Net assets released from restrictions			
Federal grants	-	-	-
State grants	76,599	123,212	-
TOTAL SUPPORT AND REVENUE	79,586	123,212	-
EXPENDITURES			
Certified personnel	56,389	42,318	-
Other professional services	-	-	-
Classified personnel	9,266	51,170	-
Indirect costs	4,799	-	-
General supplies	1,024	11,403	-
Americorps living allowance	-	-	-
County retirement	786	4,174	-
Cooperative director	-	-	-
Educational services	-	-	4,721
Custodians/maintenance	-	-	-
FICA tax	521	2,909	-
Travel	624	8,613	-
Repairs and maintenance	4,240	-	-
Teacher retirement	-	-	-
Utilities	-	-	-
Health insurance	-	-	-
Bookkeeper	-	-	-
Medicare tax	859	1,234	-
Accounts receivable administrative assistant/webmaster	-	-	-
Printing	1,328	167	-
Flex account manager	-	-	-

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Vocational Rehabilitatio n	First Steps	National Boards
Professional development administrative assistant	-	-	-
Contingency	-	-	-
Dues and fees	-	-	-
Assistant to director	-	-	-
Flex account assistant	-	-	-
Telephone	825	97	-
Workers' compensation	-	947	-
Depreciation	-	-	-
Books/periodicals	109	-	-
Postage	199	-	-
Technical/computer services	-	-	-
Interest expense/bonds	-	-	-
Computers	-	-	-
Unemployment	-	180	-
Audit	-	-	-
Advertising	-	-	-
Janitorial supplies	-	-	-
Insurance	-	-	-
Sanitation	-	-	-
Rent	-	-	-
Equipment	-	-	-
Miscellaneous	-	-	-
Life insurance	-	-	-
TOTAL EXPENDITURES	80,969	123,212	4,721
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (1,383)	\$ -	\$ (4,721)

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	CPE	KDE Funds	IDEA Program
SUPPORT AND REVENUE			
Slots/Tuition	\$ -	\$ -	\$ -
Miscellaneous revenues	-	-	-
Indirect costs received	-	-	-
Seek Funds/ADA	-	-	-
Memberships	-	-	-
Refunds	-	-	-
Interest	-	-	-
Prior year's revenues	-	-	-
Net assets released from restrictions			
Federal grants	-	-	581,395
State grants	-	25,000	-
TOTAL SUPPORT AND REVENUE	-	25,000	581,395
EXPENDITURES			
Certified personnel	1,510	-	192,837
Other professional services	14,361	13,900	707
Classified personnel	-	-	43,592
Indirect costs	-	-	45,255
General supplies	1,084	-	68,588
Americorps living allowance	-	-	-
County retirement	-	-	7,210
Cooperative director	-	-	1,000
Educational services	-	-	55,263
Custodians/maintenance	-	-	-
FICA tax	-	-	4,928
Travel	16	-	14,686
Repairs and maintenance	-	-	-
Teacher retirement	-	-	25,402
Utilities	-	-	-
Health insurance	-	-	16,606
Bookkeeper	-	-	13,000
Medicare tax	-	-	3,676
Accounts receivable administrative assistant/webmaster	-	-	9,367
Printing	210	-	5,606
Flex account manager	-	-	-

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	CPE	KDE Funds	IDEA Program
Professional development administrative assistant	-	-	19,294
Contingency	-	-	-
Dues and fees	-	-	5,307
Assistant to director	1,390	-	-
Flex account assistant	-	-	-
Telephone	-	-	3,677
Workers' compensation	-	-	4,970
Depreciation	-	-	-
Books/periodicals	-	-	3,266
Postage	-	-	618
Technical/computer services	-	-	2,533
Interest expense/bonds	-	-	-
Computers	-	-	3,924
Unemployment	-	-	420
Audit	-	-	1,500
Advertising	-	-	555
Janitorial supplies	-	-	-
Insurance	-	-	325
Sanitation	-	-	-
Rent	-	-	-
Equipment	-	-	4,864
Miscellaneous	-	-	-
Life insurance	-	-	141
TOTAL EXPENDITURES	18,571	13,900	559,117
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (18,571)	\$ 11,100	\$ 22,278

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Carl Perkins Program	EPSB Program	Family Youth Resource Center
SUPPORT AND REVENUE			
Slots/Tuition	\$ -	\$ -	\$ -
Miscellaneous revenues	-	-	-
Indirect costs received	-	-	-
Seek Funds/ADA	-	-	-
Memberships	-	-	76,000
Refunds	-	-	-
Interest	-	-	-
Prior year's revenues	-	-	-
Net assets released from restrictions			
Federal grants	33,790	440,540	179,540
State grants	-	-	75
TOTAL SUPPORT AND REVENUE	33,790	440,540	255,615
EXPENDITURES			
Certified personnel	-	214,989	-
Other professional services	-	57,145	600
Classified personnel	-	82,688	25,150
Indirect costs	-	32,559	16,237
General supplies	26,631	232	1,285
Americorps living allowance	-	-	156,111
County retirement	-	7,012	2,133
Cooperative director	-	-	-
Educational services	-	15,250	-
Custodians/maintenance	-	-	-
FICA tax	-	4,871	11,146
Travel	-	11,233	4,789
Repairs and maintenance	-	-	-
Teacher retirement	-	28,174	-
Utilities	-	-	-
Health insurance	-	10,157	18,730
Bookkeeper	-	-	-
Medicare tax	-	3,722	2,607
Accounts receivable administrative			
assistant/webmaster	-	-	-
Printing	-	-	-
Flex account manager	-	-	-

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Carl Perkins Program	EPSB Program	Family Youth Resource Center
Professional development administrative assistant	-	-	-
Contingency	-	-	-
Dues and fees	-	-	475
Assistant to director	-	-	-
Flex account assistant	-	-	-
Telephone	-	-	-
Workers' compensation	-	2,300	1,612
Depreciation	-	-	-
Books/periodicals	-	-	-
Postage	-	-	-
Technical/computer services	-	-	-
Interest expense/bonds	-	-	-
Computers	-	-	-
Unemployment	-	240	120
Audit	-	-	-
Advertising	-	-	-
Janitorial supplies	-	-	-
Insurance	-	180	35
Sanitation	-	-	-
Rent	-	-	-
Equipment	-	-	-
Miscellaneous	-	-	-
Life insurance	-	78	15
TOTAL EXPENDITURES	26,631	470,830	241,045
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 7,159	\$ (30,290)	\$ 14,570

Continued

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Council Needs Assessment	ESL Academy	Total
SUPPORT AND REVENUE			
Slots/Tuition	\$ -	\$ -	\$ 1,346,572
Miscellaneous revenues	-	-	1,020,776
Indirect costs received	-	-	797,197
Seek Funds/ADA	-	-	495,960
Memberships	-	-	242,087
Refunds	-	-	72,630
Interest	-	-	71,188
Prior year's revenues	-	-	700
Net assets released from restrictions			
Federal grants	-	-	1,281,211
State grants	-	-	694,590
TOTAL SUPPORT AND REVENUE	-	-	6,022,911
EXPENDITURES			
Certified personnel	-	-	1,672,056
Other professional services	335	-	1,023,313
Classified personnel	-	-	907,067
Indirect costs	-	-	303,631
General supplies	-	5,233	195,482
Americorps living allowance	-	-	156,111
County retirement	-	-	100,281
Cooperative director	-	-	99,155
Educational services	3,945	-	91,867
Custodians/maintenance	-	-	81,943
FICA tax	-	-	77,415
Travel	1,495	256	63,979
Repairs and maintenance	-	-	63,462
Teacher retirement	-	-	53,576
Utilities	-	-	48,584
Health insurance	-	-	45,493
Bookkeeper	-	-	44,701
Medicare tax	-	-	40,074
Accounts receivable administrative assistant/webmaster	-	-	37,291
Printing	-	-	37,212
Flex account manager	-	-	35,356

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Revenues and Expenditures By Program (continued)

June 30, 2005

	Council Needs Assessment	ESL Academy	Total
Professional development administrative assistant	-	-	32,983
Contingency	-	-	32,906
Dues and fees	-	-	31,424
Assistant to director	-	-	30,921
Flex account assistant	-	-	26,238
Telephone	-	-	23,342
Workers' compensation	-	-	20,705
Depreciation	-	-	21,114
Books/periodicals	-	-	18,330
Postage	-	-	15,688
Technical/computer services	-	-	15,077
Interest expense/bonds	-	-	13,790
Computers	-	-	12,141
Unemployment	-	-	11,171
Audit	-	-	8,361
Advertising	-	-	7,765
Janitorial supplies	-	-	7,733
Insurance	-	-	7,695
Sanitation	-	-	6,140
Rent	-	-	5,995
Equipment	-	-	5,364
Miscellaneous	-	-	3,343
Life insurance	-	-	234
TOTAL EXPENDITURES	5,775	5,489	5,536,509
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (5,775)	\$ (5,489)	\$ 486,402

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

<u>Federal Grantor/Pass-through Grantor Program Title</u>	<u>Federal CFDA No.</u>	<u>Pass-through Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through Kentucky Department of Education			
IDEA Part B - Special Education Grants to States	84.027 *	0581-03-04	\$ 24,125
IDEA Part B - Special Education Grants to States	84.027 *	0581-04-05	557,270
Carl Perkins, Vocational Education	84.048	M-04504447	33,790
English Language Acquisition	84.365	MUNIS # 3454	23,165
English Language Acquisition	84.365	MUNIS # 3455	22,781
Passed through Kentucky Education Professional Standards Board			
Teacher Quality Enhancement Grant	84.336 *	M-04207058	439,540
<u>Corporation for National and Community Service</u>			
Passed through Kentucky Cabinet for Families and Children			
Family Youth and Resource Service Center Grant	94.006	M-04538931	<u>179,539</u>
Total Expenditures of Federal Awards			<u>\$ 1,280,210</u>

* Denotes major program

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Note to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

NOTE A -- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Northern Kentucky Cooperative for Educational Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of financial statements.



Certified Public Accountants and Consultants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors

Northern Kentucky Cooperative for Educational Services, Inc.
Highland Heights, Kentucky

We have audited the financial statements of Northern Kentucky Cooperative for Educational Services, Inc. (a nonprofit organization) as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northern Kentucky Cooperative for Educational Services, Inc. financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, and Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Carpenter, Mountjoy & Bressler, PSC

Frankfort, Kentucky
October 24, 2005



Certified Public Accountants and Consultants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors

Northern Kentucky Cooperative for Educational Services, Inc.
Highland Heights, Kentucky

Compliance

We have audited the compliance of Northern Kentucky Cooperative for Educational Services, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2004. Northern Kentucky Cooperative for Educational Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northern Kentucky Cooperative for Educational Services, Inc.'s management. Our responsibility is to express an opinion on Northern Kentucky Cooperative for Educational Services, Inc.'s compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northern Kentucky Cooperative for Educational Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination of Northern Kentucky Cooperative for Educational Services, Inc.'s compliance with those requirements.

In our opinion, Northern Kentucky Cooperative for Educational Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2004.

Internal Control Over Compliance

The management of Northern Kentucky Cooperative for Educational Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audits, we considered Northern Kentucky Cooperative for Educational Services, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carpenter, Moritz & Buecker, PSC

Frankfort, Kentucky
October 24, 2005

**NORTHERN KENTUCKY COOPERATIVE
FOR EDUCATIONAL SERVICES, INC.**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.027

IDEA, Part B - Special Education Grants to States

84.336

Teacher Quality Enhancement Grant

Dollar threshold to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Section II - Financial Statement Audit Findings

No matters were reported.

Section III - Major Federal Award Program Audit Findings and Questioned Costs

No matters were reported.